

# The Movements toward the Convergence of Accounting Standards in Peru

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## Abstract

The Peruvian society and economy can be described as containing three sectors: formal, informal and criminal. Formal companies are required to apply the International Financial Reporting Standards (IFRS) according to industry and size requirements: non-financial listed companies apply the full IFRS, large private companies comply with the IFRS as approved by the Peruvian Accounting Standard Board (CNC – *Consejo Normativo de Contabilidad* in Spanish), and small and medium-sized enterprises (SMEs) must apply the IFRS for SMEs. Despite these facts, it is a gross overstatement, or at least misleading, to say that Peru complies with IFRS. Financial companies implement standards approved by the Superintendence of Banking, Insurance, and Private Pension Fund Administrators (SBS – *Superintendencia de Banca, Seguros y AFP* in Spanish). Moreover, around 99% of all the formal companies in Peru are SMEs that use accounting mainly for tax payments and do not apply IFRS for SMEs; and regretfully, the number of informal and criminal (illegal activities such as drug trafficking, smuggling, and piracy) companies is very high –almost 2.8 times of the number of the formal ones-. Consequently, these facts make the total number of Peruvian companies that comply with IFRS very low.

**Keywords:** Peruvian accounting, IFRS, SMEs, accounting standards, tax

## 1. Introduction

In 1994, Peru began adopting the International Financial Reporting Standards (IFRS – **see the summary of acronyms provided in Appendix 1**). The IFRS are a set of accounting standards issued by the International Accounting Standards Board (IASB), which succeeded the International Accounting Standards Committee (IASC) and comprise IFRS, International Accounting Standards (IAS), the Standing Interpretation Committee (SIC) statements, and the International Financial Reporting Interpretations Committee (IFRIC) statements. Currently, hundreds of countries widely comply with IFRS.

This paper has four main goals. The first is to enhance the body of research on accounting in Peru. The second is to explain the reasons behind the adoption of IFRS in Peru and other Latin American countries. The third is to explain why there is such a diversity of accounting rules in the Peruvian accounting system. The final goal is to prove

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that it is only partially true that in Peru, the applied accounting standards are IFRS.

Regarding the **first** goal, unfortunately, there is not much research on Latin American accounting in general and Peruvian accounting in particular. According to Mattessich (2008), Argentina is arguably the Latin American country for which the most accounting-related research has been conducted over the past decades.

For a general overview of accounting in Latin America, a number of publications are available. Among the more commonly cited works are Salas (1967), which focuses on accounting education and practice in Spanish Latin America; Elliot (1972), which is similar to Salas' earlier publication on accounting and economic development in South America; and Powelson (1967), which addresses national income estimates in Latin America.

Moreover, we identified two papers addressing accounting in Mexico: Mora (1972), on the accounting profession in Mexico, and Wong-Boren and Barnett (1984), on how information content and accounting numbers reflect the efficiency of the Mexican market. The most important works on this topic are the English-language publication of the *Instituto Mexicano de Contadores Público* (1975) on price-level adjustments, and the book (in Spanish) by Rodríguez Alvarez (2000) on the origins and development of accounting in Mexico from 1845 to 2000 (Mattessich, 2008, p. 297).

Although Mattessich (2008) provides a comprehensive list of global accounting research and accounting-related publications on Latin American countries, little research has been conducted on accounting in Peru. Mattessich (2008) states that there are two papers on accounting in Peru: Vandendries (1970), on social accounting in Peru, and Radebaugh (1975), on the influence of environmental factors on Peruvian accounting practices. Additional research on this topic includes works by Navarro (2002); the World Bank's (2004) Report on the Observance of Standards and Codes (ROSC); accounting textbooks written by Panez (1990, 1993), Franco (2004), Bravo and Franco (2010), Chong, Chávez, Quevedo, and Bravo (2011), and Alva (2012); and studies by Tanaka (2000, 2013a, 2013b), Diaz (2009, 2010a, 2010b, 2010c) and Lam (2010), of the Pontifical Catholic University of Peru and the University of San Marco's *Quipucamayoc* accounting journal.

Regarding the **second** objective of this research, it is commonly argued that the main reason that the IFRS were adopted in Peru and other Latin American countries is globalization because these standards provide companies with a common accounting/reporting language. Other authors mention accessibility to funds in international markets as the main reason. This paper presents a different approach, arguing that political reasons play an important role in the decision to adopt IFRS.

One possible explanation for the adoption of the IFRS in Peru, a developing country, can be attributed to politics. This notion is reinforced by Ramanna and Sletten (2009), who asserted that "There is evidence that more powerful countries are less likely to adopt IFRS,

consistent with more powerful countries being less willing to surrender standard-setting authority to an international body. There is also evidence that the likelihood of IFRS adoption first increases and then decreases the quality of a countries' domestic governance institutions, consistent with IFRS being adopted when governments are capable of timely decision making and when the opportunity and switching cost of domestic standards are relatively low" (p. 2).

However, this is not the only accounting area in which politics is involved. According to Botzem (2012), politics has a strong influence on accounting regulations. The G4 (US, UK, Canada, and Australia) and the G4 + 1 (those four countries plus the IASC) have played an important role in the accounting world. In addition, at the company level, the Big Four (KPMG, Deloitte Touche Tohmatsu, PricewaterhouseCoopers (PwC), and Ernst & Young) have also had a huge influence on accounting rules.

With respect to the **third** objective, there are a number of different sets of accounting standards within the Peruvian accounting system. Table 1 presents a summary of the types of accounting rules Peruvian companies must apply and why they differ.

**Finally**, this paper will prove that it is not totally accurate to state that the Peruvian accounting standards are the IFRS (despite the fact that Peru is recognized as one of the first countries in the region to apply International Accounting Standards as the basis for its national accounting framework, PwC, 2012) since most Peruvian companies are either SMEs (which apply accounting basically for tax purposes and do not follow either IFRS or IFRS for SMEs) or informal (which mostly do not even keep accounting records). Moreover, criminal firms (which are related to illegal activities like piracy and drug trafficking) represent an important percentage of the country's GDP and workforce and obviously do not follow any type of accounting standards.

In the case of a financial company, its accounting rules are determined by the Superintendence of Banking, Insurance, and Private Pension Fund Administrators (SBS –

**Table 1. Accounting Standards Followed by Companies in Peru**

Type of Companies	Institutions that Set the Accounting Standards	Accounting Standards
Financial companies	SBS	SBS – specific accounting rules
Non-financial listed companies	IASB	IFRS
Some private companies	CNC	IFRS approved by the CNC
Small and medium sized private companies	CNC	IFRS for SMEs

Source: Author's own work based on Peruvian government regulations

*Superintendencia de Banca, Seguros y AFP* in Spanish). However, if no rules are set by the SBS, companies must first apply IFRS. If there are no applicable IFRS, the US generally accepted accounting principles (GAAPs) must be used. It is important to mention that the rules set by SBS are generally more conservative than those set by IFRS, which is reflected in lower equity amounts.

Non-financial companies are classified in another way: listed (public) and non-listed (private) companies. Public companies (those that trade their securities in the stock market and are supervised by the Superintendence of the Securities Market (SMV, formerly known as CONASEV – *Comisión Nacional Supervisora de Empresas y Valores* in Spanish) must apply IFRS. Private companies, on the other hand, must implement the rules set by the Peruvian Accounting Standard Board (CNC – *Consejo Normativo de Contabilidad* in Spanish)). The CNC specifies the IFRS with which private companies must comply. Therefore, the difference between private and public companies is that all the IFRS issued by the IASB are mandatory for public companies. In contrast, only those approved by the CNC are required for private companies. If no applicable IFRS exists, the CNC can decide to implement the applicable US GAAP. As a reference, as of December in 2012, there are 282 companies listed on Lima Stock Exchange (LSE), out of a total of more than 200,000 companies legally existing in Peru.

The LSE was established on September 22, 1970, as a non-profit organization and later became a corporation. It is regulated by Legislative Decree 861 (Securities Market Law) and the SMV. The corporate purpose of the Exchange is to facilitate the transparent trading of listed securities.

Thus, an important question is raised: In practical terms, what are the differences between the full IFRS (issued by the IASB) and the IFRS approved by the CNC?

According to PwC (2012), “when considering the most recent approvals of certain standards and pronouncements by the CNC, the major differences between IFRS and Peruvian GAAP are as follows: according to Peruvian GAAP (CNC resolution N° 031-2004-EF/93.01) until December 31, 2004, it was required that financial statements be adjusted to reflect the effects of inflation based on a methodology approved by the CNC. For Peruvian GAAP purposes, the CNC approved maintaining the application of the equity method of accounting to investments in subsidiaries presented in separate financial statements of an entity that issues consolidated financial statements. IFRS 10 (amendments to IFRS 10, IFRS 12, and IAS 27), Consolidated Financial Statements, only permits investments in subsidiaries, presented in separate financial statements, to be accounted for at cost or at fair value, as indicated in IAS 39” (PwC, 2012). See appendix 2 for a detailed table with the IFRS approved by the CNC for fiscal year 2013.

Finally, for small and medium sized private companies, the CNC has mandated the

application of IFRS for SMEs.

In 2010, Peru's regulator, CONASEV, issued resolution N° 102-2010-EF/94.01.1, according to which public filers in the local stock market must prepare financial statements under IFRS as issued by the IASB. Two years later, on April 27, 2012, the SMV issued resolution N° 011-2012-SMV/01, through which non-public filers in the local stock market must prepare financial statements under IFRS as issued by the IASB. The application of these resolutions is scheduled to take place in two phases: (a) companies with total assets and/or net revenues higher than US\$ 42.6 million (this is an approximate conversion of the 30,000 taxable units, or UIT, mentioned in the resolution) should have audited financial statements prepared under IFRS as issued by IASB for the fiscal year ending on December 31, 2012, with early application being optional; (b) companies with total assets and/or net revenues higher than US\$ 4.26 million (this is an approximate conversion of the 3,000 UIT mentioned in the resolution) should have audited financial statements prepared under IFRS as issued by IASB for fiscal year ending December 31, 2013, with early application being optional. In 2013, a UIT is S/.3,700 (S/. stands for Peru's currency, Peruvian new soles). In 2012, a UIT was equivalent to S/.3,650 (S/2.6 per US\$ 1).

Finally, on October 10, 2012, the SMV (Resolution SMV N° 043-2012-SMV/01) modified some articles of Resolution CONASEV N° 102-2010-EF/94.01.1 and N° 012-2012-SMV/01.

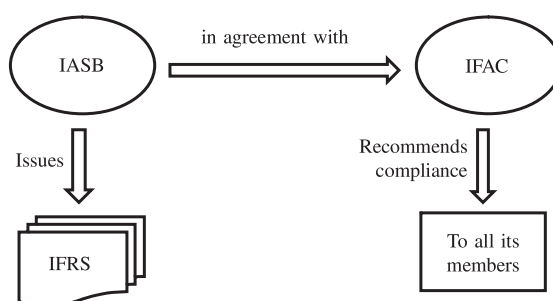
These resolutions issued by the Peruvian regulator are a significant step towards transparency and the provision of high quality financial information in the Peruvian stock market.

For more information regarding the processes followed by the IASB and CNC to regulate accounting standards, Figures 1 and 2 present a comparison of the processes followed by both the IASB and CNC to set accounting rules around the world and in Peru, respectively.

Moreover, it is important to mention that non-financial companies must apply the General Accounting Business Plan (PCGE), whereas financial companies, which are regulated by the SBS, have their own Chart of Accounts and must also follow the Basel II and III regulations. In addition, governmental institutions must comply with the Modified Governmental Chart of Accounts (Directorial Resolution N° 004-2013-EF/51.01.)

Further, even though the accounting rules for the vast majority of Peruvian companies are either the IFRS (private companies must follow the IFRS approved by the CNC and public or listed companies must comply with the IFRS approved by the IASB) or IFRS for SMEs, many companies follow neither, especially in the case of SMEs.

In most cases, SMEs just follow the tax rules approved by the *Superintendencia Nacional de Aduanas y Administracion Tributaria* (SUNAT), the Peruvian institution

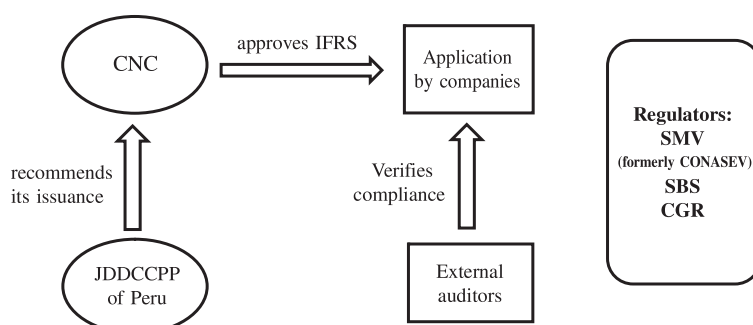
**Figure 1. Process of IFRS approval – International**

Source: Rubiños (2007) Seminar: Challenges and Opportunities from the IFRS Harmonization, [http://www.sbs.gob.pe/PortalSBS/InfPublico/niif/06\\_Aplicacion\\_NIIF\\_en\\_el\\_Peru.pdf](http://www.sbs.gob.pe/PortalSBS/InfPublico/niif/06_Aplicacion_NIIF_en_el_Peru.pdf)

**IASB:** International Accounting Standard Board

**IFRS:** International Financial Reporting Standards

**IFAC:** International Federation of Accountants

**Figure 2. Process of IFRS approval – Peru**

Source: Rubiños (2007) Seminar: Challenges and Opportunities from the IFRS Harmonization, [http://www.sbs.gob.pe/PortalSBS/InfPublico/niif/06\\_Aplicacion\\_NIIF\\_en\\_el\\_Peru.pdf](http://www.sbs.gob.pe/PortalSBS/InfPublico/niif/06_Aplicacion_NIIF_en_el_Peru.pdf)

**CNC:** Consejo Normativo de Contabilidad (Accounting Standards Board) equivalent to IASB in the US.

**JDDCCPP:** Junta de Decanos de los Colegios Contadores del Peru (Federation of Deans of the Accounting Associations of Peru)

**SMV:** Superintendencia del Mercado de Valores (Superintendence of the Securities Market) former CONASEV equivalent to SEC in the US.

**SBS:** Superintendencia de Banca, Seguros y AFPs (Superintendence of Banking, Insurance and Private Fund Management and Pensions Management)

**CGR:** Contraloria General de la Republica (Auditor General of the Republic)

equivalent to the American Internal Revenue Service (IRS). For more information on this topic, see Diaz (2010) and Tanaka (2013).

If compliance with IFRS and its relevance in the Peruvian case are measured taking the number of companies or the percentage of their contribution to GDP into account, it would

not be accurate to affirm that full IFRS or IFRS for SMEs are consistently applied in Peru.

According to Proinversion (Peru's private investment promotion agency), SMEs are classified based on certain requirements regarding to their numbers of employees and annual sales (see Table 2). Moreover, micro and small enterprises play a fundamental role in generating employment in Peru (see Figure 3).

**Table 2**

<i>Type of firm</i>	<i>Number of Employees</i>	<i>Annual sales</i>
Micro	1 to 10	Up to US\$160,000
Small	11 to 50	From US\$160,000 to US\$ 916,400
Medium	50 to 250	More than US\$ 916,400
Large	More than 250	

**Figure 3. The Importance of SMEs in Peru**



Source: Own elaboration based on information from ProInversion, Government of Peru.

As can be deduced from the information presented above:

- 1) Most Peruvian companies are micro and small firms.
- 2) These firms account for high percentages of the Peruvian work force (number of employees) and GDP.
- 3) Most micro and small firms do not apply IFRS for SMEs (instead, they use accounting information basically for tax purposes).
- 4) Therefore, it is not completely accurate to state that IFRS (full) or IFRS for SMEs are applied in Peru. Only some SMEs and most big corporations apply these international standards for accounting purposes.

## **2. Brief History of Accounting in Peru**

### **2.1 Pre-Hispanic Accounting in Peru**

Accounting or other types of accountability systems have been present in Peru since ancient times. Before the Spaniards invaded Peru and imposed their culture and knowledge on the native population, ancient Peruvians already had a type of accounting system.

*Quipu* (also spelled kipu, khipu, or quipo), meaning “knot” in the Quechua language, is the only known pre-Columbian information transmittal system. Quipu is essentially a group of llama or alpaca wool and cotton strings that are tied together. The strings are dyed in many different colors and are joined together by a wide variety of knots and other connections. Together, the type of wool/cotton, colors, knots, and connections hold numeric information that was once readable by several South American societies. The information recorded on quipus consists of numbers in a decimal system. The *quipucamayoc* (ancient Peruvian “accountants” who were able to interpret the quipus) could sometimes be summoned to court, where their bookkeeping was recognized as representing valid documentation of past payments.

Archaeological evidence has shown that systems similar to the quipu were used in the Andean region starting in 3000 BC. Centuries later, they played an important role in the administration of *Tahuantinsuyu* (the empire controlled by the Incas that flourished across the Andes from 1450 to 1532 AD).

Subsequently, as the region was subsumed under the invading Spanish Empire, the use of the quipu gradually decreased and was replaced by the European writing system.

### **2.2 Hispanic Influence on the Peruvian Accounting System**

The Spanish authorities realized that the quipucamayocs remained loyal to their original bosses, sometimes lying about the information “recorded” in quipus. As a result, the Spaniards decided to adopt an accounting system that was more favorable to their main objective of collecting taxes from the indigenous population. Later, as their accounting needs expanded to include managing public finances in addition to the control of taxes paid, the Italian system of Luca Pacioli was adopted.

Decades after its independence from Spain, Peruvian organizations continued using accounting records primarily for tax purposes and on April 1, 1899, the Technical School of Commerce (*Escuela Técnica de Comercio*) was founded. This was the first commerce school in Peru and the most influential accountants in the early 20<sup>th</sup> century studied there.

The Peruvian Institute of Accountants was founded on October 31, 1900, and played a fundamental role in the first years of the development of accounting in Peru. Its founder, Michael Max Bromberg Gumpertz, is considered the pioneer of accounting in Peru.

In 1932, the Pontifical Catholic University of Peru created the School of Political



Sciences, which, years later, changed its name to the School of Business and Accountancy. In 1935, the First National Conference of Accountants in Peru took place and then, on June 28 of the same year, the National Major University of San Marcos created a specialization in accountancy.

The Pontifical Catholic University and the University of San Marcos were the two most important schools with majors in accountancy until the early 1960s. In 1962, two other universities, the University of Lima and the University of the Pacific, were founded, thereby expanding the list of institutions with accounting specializations in Peru. According to a ranking of Peruvian accounting schools by “*America Economia*,” the top four Peruvian university accountancy programs are those offered by the University of the Pacific, Pontifical Catholic University, University of Lima, and University of San Marcos.

On July 17, 1942, the College of Accountants of Lima (similar to the American Accounting Association in the US, but oriented only to the capital of Peru) was founded. Currently, this institution has approximately 40,000 members.

### **2.3 Other Foreign Influences on Peruvian Accounting: Germany, France, and the United States**

Although Peruvian accounting was initially based on the Spanish system, it has been influenced by accounting practices from many countries through the years. For example, as mentioned above, the pioneer of accounting in Peru was a German national (Michael Max Bromberg Gumpertz), who became the first president of the Peruvian Institute of Accountants in 1905.

Moreover, the Peruvian accounting system has also been influenced by the French system. According to Radebaugh (1975), in 1974, Peruvian accounting adopted the French chart of accounts, which was called the “*Plan Contable General*” (General Chart of Accounts).

According to Lam (2010), “until 1973, in Peru, every company prepared its accounting plan according to its information necessities, which led to the use of a variety of terms, many with lots of analytical accounts and other general ones. It is in this situation that the first General Accounting Plan (Plan Contable General) was approved and its mandatory implementation started on January 1<sup>st</sup>, 1974” (p. 5). This General Accounting Plan (PCGE), which is reviewed in detail later in this paper, was valid until 1984, when the Revised General Accounting Plan was issued. Later, in 2010, the CNC issued the General Accounting Business Plan because the Revised General Accounting Plan of 1984 did not fit well with the global changes experienced by companies in the last decades, and especially because it did not harmonize with the IFRS.

Finally, the United States has influenced accounting systems in Latin America in general

(Wirth and Mattessich, 2006) and Peru in particular (Navarro, 2002). The influence of the United States can be seen very clearly in the accounting schools of the Peruvian colleges and universities: the textbooks used in accounting courses are simply translations of the English versions of US books. Moreover, in the past (before the adoption of the IFRS), some US GAAP principles were adopted.

## 2.4 Local Factors Influencing the Peruvian Accounting System

Other internal (national) factors have had an impact on the accounting system in Peru. On October 3, 1968, General Juan Velasco Alvarado, Commander of the Armed Forces and founder of the Armed Forces Revolutionary Government, seized power in a bloodless military coup, deposing the democratically elected administration of President Fernando Belaúnde. In 1970, during the de facto government of Juan Velasco Alvarado, the government issued two decrees, *Decreto Ley* N° 18350 (*Ley General de Industrias* – General Law of Industries) and *Decreto Ley* N° 18384 (*Ley de las Comunidades Industriales* – Law of Industrials Communities). According to these laws, workers would receive common shares of the companies they were working for, and 15% of net income would be used to issue shares valued at up to 50% of the common capital. Later, in 1977, during the government of another military ruler, General Morales Bermudez, *Decreto Ley* N° 21789 was issued, voiding the laws regarding common shares and creating labor shares (*acciones laborales*) instead. Then, in 1991, through *Decreto Legislativo* N° 677, labor shares were renamed work shares. Finally, in 1998, through *Ley* N° 27028, their name was changed again to investment shares.

All these changes affected the accounting system, such as by creating new accounts in the Chart of Accounts (*Plan Contable*).

Another important factor that influenced accounting was inflation. Peru experienced its worst inflation from 1988-1990, like several Latin American countries did in the late 1980s and early 1990s. In the 1985 currency reform, one *inti* (inti is a Quechua word meaning sun, which is “sol” in Spanish) was exchanged for 1,000 soles. In 1986, the highest monetary denomination was 1,000 intis. However, monthly inflation reached 114% in September 1988 and 397% in August 1990. Consequently, the highest monetary denomination reached 5,000,000 intis by 1991. In the 1991 currency reform, 1,000,000 intis were exchanged for one *nuevo sol*. The overall impact of the hyperinflation was that one nuevo sol was equivalent to 1,000,000,000 (old) soles. This hyperinflationary context created a problem for analysts of financial information because their data were totally distorted.

Accounting rules to adjust for inflation were required by Peruvian GAAP until December 31, 2004. Starting on January 1, 2005, the Peruvian authorities suspended them, with legal

and tax effects.

### **3. Pillars in the Peruvian Accounting System**

According to Diaz (2010), the Peruvian accounting system has three pillars: the National Accounting System, Accounting Books, and the Plan or Chart of Accounts

#### **3.1 National Accounting System (SNC – *Sistema Nacional de Contabilidad* in Spanish)**

On April 10, 2006, the Peruvian government issued Law 28708, the National Accounting System Law, which aimed primarily to establish norms and procedures to harmonize and standardize the accounting information of public and private institutions. The law's secondary goals were related to public national finances. Law 28708 replaced law 24680 after 1987.

The SNC is composed of the following institutions: (1) the National Public Accounting Department (DNCP), (2) CNC, (3) the accounting offices of government institutions, and (4) the accounting offices of private institutions.

#### **3.2 Accounting Books**

According to the Commerce Code of 1902, there are mandatory and optional accounting books. Moreover, the Commerce Code states the content and manner in which accounting books should be kept but omits how financial statements should be prepared (Diaz, 2010, p. 10).

However, since many Peruvian companies (especially micro and small firms) primarily keep accounting records only to file taxes, most companies prepare accounting information according to tax rules. In Peru, the tax institution equivalent to the US IRS is called the SUNAT.

Hence, although the Commerce Code establishes requirements for accounting books, companies choose to follow the tax rules related to accounting books instead (Diaz, 2010, p. 10). In this regard, there are two laws set by SUNAT related to accounting books: 234-2006/SUNAT and 286-2009/SUNAT. The first of these states the format and minimum requirements for accounting books and makes it mandatory to keep books on Inventory and Balances and prepare the Statement of Changes in Net Equity and the Statement of Cash Flows, which were not mandatory before law 234-2006/SUNAT was passed. The second law (286-2009/SUNAT) regulates the Program of Electronic Books.

#### **3.3 Plan (or Chart) of Accounts (*Plan Contable*)**

In the history of the Peruvian accounting system, three Plans or Charts of Accounts have been applied: the first from January 1, 1974 to December 1984 (PCG); the second from

1985 (January) to 2010 (PCGR – *Plan Contable General Revisado*); and the last (PCGE) since 2011.

As mentioned above, until 1973, every company had its own accounting plan according to its information needs, which led to the use of a variety of terms as well as analytical accounts in some cases and in others more general ones (Lam, 2010, p. 5).

Concurrently with CONASEV (now SMV) proposals and under the direction of the Ministry of Economy and Finance, the Plan Contable General (General Accounts Chart) was developed. The plan was a uniform accounting system for enterprises and was designed in consideration of 1) managerial, 2) macroeconomic, and 3) customs needs applicable to accounting in Peru. The plan was intended to form a foundation of reliable information on which the national accounts (macro statistics) could be prepared, as well as provide useful information for managers, shareholders, workers, creditors, and others (Radebaugh, 1975, p. 51).

Moreover, another important reason to have a uniform chart of accounts for all companies was Peru's need for uniform data to assist in national planning (Radebaugh, 1975, p. 52). This uniform data was needed because at the time, Peru was under the rule of the left-wing "Armed Forces Revolutionary Government," which required standardized data in order to plan for the country's development.

Therefore, because it became very difficult in the early 1970s to compare financial information among different companies, even those within the same industry, the government decided to implement a uniform chart of accounts. Hence, through law 450-73-EF/11 (*Resolución Suprema* – Supreme Resolution), passed on November 13, 1973, the military government approved Volume 1 of the General Accounts Plan of the Uniform Accounting System for Enterprises (*Plan Contable General del Sistema Uniforme de Contabilidad para Empresas*). Law 20172 stated that the uniform accounting system for enterprises would be applicable starting on January 1, 1974. This PCG was used by Peruvian companies for more than a decade.

On February 15, 1984, through Resolution CONASEV 006-84-EPC/94.10, the Peruvian government approved the Revised General Accounts Plan (PCGR), which modified the 1974 plan. The PCGR was applied by Peruvian companies from 1985 until 2011.

On February 20, 2008, the Peruvian Accounting Standard Board (CNC) approved law 039-2008-EF/94, the last version of the PCGE, which should have become mandatory starting on January 1, 2010, with voluntary application starting on January 1, 2009. However, on November 14, 2009, the CNC deferred the mandatory application of the PCGE to January 1, 2011 and its optional application to January 1, 2010.

## **4. Institutions in the Peruvian Accounting System**

### **4.1 Peruvian Accounting Standard Board (CNC)**

The CNC was established under the Law on the National Accounting System (*Ley del Sistema Nacional de Contabilidad* or LSNC) of 1987. This law was later modified by Law No 28708 in 2006, as the official standard-setting body for accounting in both the public and private corporate sectors. It was composed of representatives from various public institutions, the accounting profession, universities, and business. It was established under the leadership of the Accountant General's Office (*Contaduría Pública de la Nación – CPN*), a division of the Ministry of Economy and Finance. In an effort to strengthen the country's accounting standards, the CNC issued a series of resolutions from 1994 to 1998 by which, pursuant to the LGS, it officially adopted IAS (current IFRS, or NIIF in Spanish) as Peruvian GAAP for the purposes of statutory financial reporting.

On April 18, 1994, the CNC issued Resolution 005-94-EF/93.01 approving the use of IAS (NIC in Spanish) as the Peruvian GAAP.

### **4.2 Superintendence of the Securities Market (SMV)**

The SMV was created on May 28, 1968, through law No 17020 and started operating on June 2, 1970, as the National Commission of Securities (CONASEV) through Decree Law 18302. The functions of CONASEV were similar to those of the American Securities and Exchange Commission (SEC).

Over the years, various laws modified CONASEV functions and finally, on July 28, 2011 (through law 29782), its name was changed to SMV and its functions were significantly strengthened.

### **4.3 Superintendence of Banking, Insurance, and Private Pension Fund Administrators (SBS)**

Banks, insurance companies, and pension funds are required to present audited financial statements prepared in accordance with the pronouncements of the Superintendence of Banking, Insurance, and Private Pension Fund Administrators (SBS) of 1996, or, absent such pronouncements, their reports must comply with IAS or US GAAP. Under the General Law of the Financial and Insurance Systems (*Ley General de los Sistemas Financiero y de Seguros – LGSFS*), banks and insurance companies are subject to a specific regulatory framework for accounting and auditing that is set out either in the LGSFS or SBS norms. Similarly, pension funds must comply with a specific act and SBS resolutions. In particular, these entities are required to follow specific charts of accounts and accounting methods, as further discussed in this paper. If listed (or “open”), the financial institution, insurance company, or pension fund is required to follow the norms set by SBS under Article 31 of the LMV. (Securities Market Law).

In July 2000, through law 27328, the SBS increased its control and supervisory scope to include pension funds (AFPs in Spanish). On June 12, 2007, through law 29308, the Unit of Financial Intelligence of Peru (UIF Peru) was placed under the SBS and made into an SBS division, increasing the functions of the SBS to now include the prevention of money laundering and financing of terrorism.

According to the World Bank Report on the Observance of Standards and Codes (ROSC), CONASEV and SBS enjoy accounting standard-setting privileges in their specific areas of purview. SBS has used this prerogative extensively, setting a number of detailed accounting rules for banks, insurance companies, etc., to be applied for both regulatory and general-purpose financial reporting. These rules reflect international practices in matters of disclosure on specific aspects of the banking and insurance sectors. However, a number of these sector-specific accounting rules used in the preparation of general-purpose financial statements are inconsistent with IFRS. On the other hand, CONASEV passed an accounting regulation that was meant to facilitate the transition to international standards by allowing the recognition of deferred income tax liabilities to be spread over 13 years; however, this regulation contradicted IFRS, which require such liabilities to be recognized immediately.

As a result of CONASEV's efforts, it has become easy to obtain public access to financial statements and related corporate information in a timely manner. This has contributed to financial transparency in the securities market and investor confidence.

#### **4.4 Regional Colleges/Associations of Public Accountants (*Colegio de Contadores Públicos*)**

Membership in the professional accounting associations is compulsory for accountants in public practice. They are referred to as colleges of accountants, or "*colegios de contadores públicos*." The colegios enjoy significant privileges under the law, including the licensing of auditors and standard-setting in the fields of auditing and accountant professional conduct.

According to the World Bank's ROSC, the accounting profession in Peru is organized through the 25 regional colleges of public accountants, which are regulated by a specific Act and represent an estimated membership of more than 70,000 public accountants. The colleges of accountants were established as self-regulated organizations under the 1959 Law of Professions (*Ley de Profesionalización*). College members enjoy certain privileges under article 20 of the constitution, and any practicing accountant must be affiliated with one of them. The largest of the colleges is the College of Public Accountants of Lima (*Colegio de Contadores Públicos de Lima – CCPL*), which has an estimated 31,000 affiliates and exercises a strong influence over the profession across the country.

The activities of the colleges of accountants are mostly geared toward defending their members. Each colegio operates under its own rules. The colegio of Lima is governed by its

by-laws (*estatutos*, issued in October 1998) and internal regulations (*reglamento interno*, issued in August 1999). These establish two main governing bodies: the general assembly and the managing board (*consejo*). The by-laws also allow for various auxiliary bodies, including the Tribunal of Honor and ethics committee, whose roles are currently limited. The by-laws set forth the objectives of the college of accountants, which are to ensure that professional practices are in accordance with mandated principles and standards; issue and disseminate accounting standards, cooperate with public authorities, develop relationships with national and international accounting organizations, and promote the continuing education of affiliates. The colegio is mandated to represent and defend the profession, investigate cases of illegal practices or alleged professional ethics violations by members, and regulate professional accounting practices. For the most part, however, the by-laws and regulations that essentially repeat each other primarily address the practical details of how the colegio's various bodies and committees are formed, and do not set out precise procedures or guidelines under which the colegio is to pursue its stated objectives and mandates on the issuance and dissemination of accounting standards or the continuing education of its membership. The managing board and its president or dean (*decano*) are elected every two years by colegio members.

As is traditional in most of Latin America, the only substantial requirement for affiliation with a colegio is the awarding of the *contador publico* (public accountant) degree by a university. In the case of the colegio of Lima, Article 6 of the regulations states that in order to be granted membership, candidates must present their professional title along with proof having studied for five years. Once admitted, members must fulfill certain annual training requirements.

These professional bodies are not affiliated with any universities or other academic institutions, although they may organize courses in the accounting field in collaboration with universities.

#### **4.5 The Federation of Colleges/Associations of Public Accountants of Peru (*Federación de Colegios de Contadores Públicos del Perú* or FCCPP)**

The FCCPP is an umbrella organization that has some accounting and auditing standard-setting powers but plays a relatively limited role in the regulation of the accounting profession. The primary responsibility for regulating the accounting profession lies with the colegios. As a federal body, the FCCPP plays two roles: national-level coordination and representation in international forums on the one hand and accounting monitoring and auditing standard-setting on behalf of the profession on the other hand. The FCCPP is a founding member of the Inter-American Accounting Association (*Asociación Interamericana de Contabilidad* – AIC). It has been a member of the International Federation of

Accountants (IFAC) since 1984, although the membership list posted on IFAC's website includes the FCCPP as a "suspended" member and it has actually had very limited involvement with IFAC to date. The FCCPP's president is elected by the deans of the 25 colleges of accountants, with each colegio having voting powers proportional to its number of affiliates. Every two years, the FCCPP organizes the National Congress of Public Accountants for all colegio members. The National Congress has endorsed the translation of ISA (International Standards on Auditing) and their two subsequent updates, prepared under the aegis of the FCCPP, from 1996 and 2000 (the latest update was based on the IFAC Handbook released in 1998, which contained the ISA version and other technical pronouncements prevailing at the time).

#### **4.6 Colleges/Associations of Accountants (*Colegios*)**

Colleges/associations of accountants theoretically require continuing education on the part of their members, but these requirements are neither enforced nor complied with. In the case of the Lima colegio (CCPL), under article 14 of CCPL's Regulations, affiliated public accountants must dedicate 30 hours per year to continuing education.

### **5. Legal/Regulatory Framework**

In Peru, the legal regulatory framework for non-financial corporations is composed of the Code of Commerce, the General Company Law, the IFRS, and the PCGE.

#### **5.1 Code of Commerce and General Company Law (*Ley General de Sociedades – LGS*)**

Basic requirements for accounting, financial reporting, and auditing in Peru are set out in the Code of Commerce (law 00010-1902) and in the LGS law 26887) of December 1997. The Code of Commerce, issued in 1902, establishes the obligation of companies to keep books of accounts, ledger, and other basic accounting records. The most common legal business structure in Peru among those provided by the LGS is the corporation (*Sociedad Anónima – SA*). Under the LGS, the board of directors of an SA must "provide the shareholders and the public with sufficient, trustworthy, and appropriate information with respect to the company's legal, economic, and financial situation." It also obliges the board of directors to convene meetings of the shareholders' general assembly when the equity has been reduced by losses to less than half of issued stock. The LGS requires the financial statements of corporations to be prepared and presented in accordance with Peruvian GAAP, which were specifically defined later as the IFRS (according to CNC's law – Resolution No 013-98-EF/93.01).



## 5.2 IFRS

When preparing their statutory annual financial statements, Peruvian corporate entities (enterprises of any size that do not belong to the financial sector, including banking, insurance, brokerage, and investment management) must follow IFRS as officially endorsed by the CNC. The CNC was established under the Law on the National Accounting System (*Ley del Sistema Nacional de Contabilidad – LSNC*) of 1987 as the official accounting standard-setting body in both the public and private corporate sectors. It is composed of representatives from various public institutions, the accounting profession, universities, and the business community. It was established under the leadership of the Accountant General's Office (*Contaduría Pública de la Nación – CPN*), a division of the Ministry of Economy and Finance. In an effort to strengthen the country's accounting standards, the CNC issued a series of resolutions from 1994 to 1998 through which, pursuant to the LGS, it officially adopted IAS as the Peruvian GAAP for the purposes of statutory financial reporting.

Peru officially adopted 34 IAS standards and 32 interpretations by 1998. However, the previous adopted IAS have not been updated in a timely manner due to the CNC's limited resources as well as domestic inflation (The World Bank Group, 2004). Therefore, all companies must follow the Peruvian GAAP, which include IAS endorsed by the CNC (The World Bank Group, 2004). On October 14, 2010, the Peruvian regulator, CONASEV (now known as SMV) required public companies in the local Stock Market to fully adopt IFRS starting from January 1, 2011 (Deloitte IAS Plus, 2011). Investment funds and other companies should prepare their financial statements under IFRS starting from January 1, 2012, and early adoption is optional and should be communicated to CONASEV (Deloitte IAS Plus, 2011). According to the CNC, all Peruvian companies with total assets and/or net revenues under S/. 3,000 UIT (in 2013, one UIT is equivalent to S/. 3,700) must adopt IFRS for SMEs starting from January 1, 2011, except banks, large unlisted companies, and publicly traded companies (IFRS, 2010). Corporations whose shares are publicly traded or whose shareholding structures meet certain criteria that indicate significant minority interests are subject to compulsory audits of their annual financial statements, among other additional financial reporting and related requirements.

It is important to note that the above classification is used only for accounting purposes because for legal purposes, different rules apply (see Table 3 below).

**Table 3. Company Classification**

Type of Company	Number of Employees	Total Sales (US\$)	Fixed Assets (US\$)
Micro	1-10	1-125,000	1-25,000
Small	11-50	125,000-1,500,000	25,000-300,000
Medium	51-200	1,500,000-20,000,000	300,000-4,000,000

Source: University of Lima-MITINCI/GTZ

The LGS contemplates two types of corporations: “open” corporations, i.e., SAAs (*Sociedades Anónimas Abiertas*), and “closed” corporations (*cerradas*). Open corporations are corporations for which one or more of following is true: (i) corporations that have made an initial public offering of stock or convertible bonds; (ii) corporations that have more than 750 shareholders; or (iii) corporations that have 175 or more shareholders controlling at least more than 0.2% and less than 5% of the stock individually and 35% or more of the stock collectively. SAs (Corporations or *Sociedades Anónimas*, in Spanish) that have issued publicly traded securities and SAAs must be listed on the Public Securities Market Registry (*Registro Público de Mercado de Valores*).

Banks, insurance companies, and pension funds are required to present audited financial statements prepared in accordance with the 1996 pronouncements of the SBS or, absent such pronouncements, must comply with IAS or US GAAP. Under the General Law of the Financial and Insurance Systems (*Ley General de los Sistemas Financiero y de Seguros – LGSFS*), banks and insurance companies are subject to a specific accounting and auditing regulatory framework set out either in the LGSFS or SBS norms. Similarly, pension funds must comply with a specific act as well as with SBS resolutions. In particular, these entities are required to follow specific charts of accounts and accounting methods, as further discussed in this paper. If listed (or “open”), the financial institution, insurance company, or pension fund is required to follow the norms set by SBS under Article 31 of the LMV (Securities Market Law).

### **5.3 General Accounting Business Plan (PCGE)**

As mentioned above, the Peruvian accounting system has had three Accounting Plans: the first lasted from January 1, 1974, until 1984; the second, called the General Accounting Plan (PCGR), was used from 1984 to 2011; and the third, known as the General Accounting Business Plan, has been applied since 2011.

The main reason the CNC issued a new accounting plan was that the PCGR was outdated. The PCGR did not reflect the changes the accounting field in Peru has experienced in the last years, especially since the adoption of the IFRS in 1998. Moreover, as previously noted, the financial institutions have their own “chart of accounts” (plan contable) set by the SBS.

### **5.4 Other Specific Regulations**

Some specific regulations apply to listed companies (companies under the supervision of the SMV). A brief explanation of these regulations is presented below.

#### **A) Financial Information Regulation**

The Financial Regulations contain the regulations that companies must comply with in

the preparation and presentation of information, with the objective that such information will meet generally accepted accounting principles. For that purpose, it includes the following guidelines:

- Framework for preparation of financial statements: GAAP
- Financial Statements: Identification of financial statements (Statement of Financial Position, Statement of Income, Statement of Comprehensive Income, Statement of Changes in Equity, and Statement of Cash Flow), objectives, contents, and preparation
- Notes to the financial statements; scope and contents
- Management report
- Audited financial information: aim, responsibility, term period for auditor assignment (90 calendar days, before the year-end closing) and other regulations regarding auditing development

#### B) Manual for Financial Information Preparation

This manual, issued by the SMV in March 2008, complements the Financial Information Regulations and includes guidelines to facilitate the preparation of that information. For these purposes, it describes the accounts and items to be included in the financial statements, disclosures to be made in the notes, procedures for the preparation of the Management Report, and certain issues to be considered in the audited financial information. It includes models of financial information and a glossary of keywords.

#### C) Standards related to the Auditor Report

These standards prescribe that the auditor's opinion should indicate whether the financial statements are being prepared according to Peruvian GAAP. It should also state whether the financial statements fairly disclose the information contained therein, and should contain an opinion about the financial statements or an explanation as to why the auditors were unable to give their opinions. Companies listed in the Lima Stock Exchange are required to prepare consolidated and separate financial statements under IFRS.

Until 2010, listed companies filed their separate and consolidated financial statements, which were prepared according to IFRS as adopted locally. In October 2010, the SMV (the Peruvian SEC) issued a regulation requiring listed Peruvian companies (except banks, insurance companies, and pension funds, among other specific types of entities) to file both separate and consolidated financial statements prepared following the full application of IFRS as published by the IASB.

According to Peruvian General Corporate Law, the financial statements of private entities must be prepared according to IFRS as approved by the CNC. Currently, there are differences in the timing of approval of the IFRS. On the other hand, there are also

differences resulting from the application of legal and tax requirements rather than full IFRS. Differences are observed in the following main areas, among others: the useful lives of fixed assets and fines (penalties) which can be tax deducted for accounting purposes but not for tax purposes. Moreover, the statutory financial statements of non-listed entities do not need to be submitted to any governmental agencies (although they are the basis on which taxes and shareholder distributions are determined).

Banks, insurance companies, and pension funds are subject to the regulations of the SBS, which differ from those stated above. These rules are based on IFRS with specific non-approved standards, such as IAS 39 and IFRS 7, among others.

## **6. Reasons for IFRS Implementation in Peru**

The diverse reasons that IFRS have been implemented in many countries have been explained in detail. Listed reasons include the complexity of current accounting standards in some countries, cost efficiencies for global companies, access to foreign capital markets, reductions in the cost of capital, improvement in consistency and comparability, and the lack of high quality accounting information.

This paper takes a completely different approach, explaining that politics is the reason for IFRS adoption. One author, Ramanna (2009, 2012a, and 2012b), has primarily developed this approach.

Ramanna and Sletten (2009) state that “There is evidence that more powerful countries are less likely to adopt IFRS, consistent with more powerful countries being less willing to surrender standard-setting authority to an international body. There is also evidence that the likelihood of IFRS adoption first increases and then decreases the quality of countries’ domestic governance institutions, consistent with IFRS being adopted when governments are capable of timely decision making and when the opportunity and switching cost of domestic standards are relatively low” (p. 2).

Because Peru is still a developing country (despite the high growth level it experienced in the last decade) that does not yet have particularly strong government institutions, it makes sense that Peru has adopted IFRS.

IFRS adoption has been shown to be contagious among trading partners within a geographic region. This is an encouraging sign because it indicates that (a) countries value the network effects of IFRS and (b) the network benefits of IFRS may eventually outweigh the benefits of locally developed standards (Ramanna and Sletten, 2009, p. 3). Indeed, the case of Peru supports this trend. As mentioned above, Peru, along with most of its Latin American neighbors, has already adopted IFRS in different forms (full convergence, non-full convergence, and IFRS for SMEs).

Ramanna and Sletten (2010) have also shown that “the degree of IFRS harmonization in

a country is an increasing function of the perceived value of its IFRS network, particularly when network benefits are defined to include relations with EU member states” (p. 31). Still, the strength of the networks acting as catalysts for IFRS adoption or harmonization diminishes as the bargaining power of nations grows. Among countries with large GDPs and those whose GDPs do not heavily rely on foreign trade, incentives for IFRS adoption and harmonization remain weak.

However, this is not the only area in accounting where politics is involved. According to Botzem (2012), politics has a strong influence on accounting regulations. Botzem (2012) claims that the United States and other Anglo-Saxon countries (the United Kingdom, Canada, and Australia) have influenced the setting of accounting standards in diverse ways. The G4 (composed of the four countries mentioned above) and the G4 + 1 (those four countries plus the IASB) have played an important role in the accounting world. In addition, at the company level, the Big Four (KPMG, Deloitte Touche Tohmatsu, PwC and Ernst & Young) have also had a strong influence on accounting rules.

### **6.1 Problems with the Implementation of IFRS in Peru**

There are four noteworthy problems related to the implementation of IFRS in Peru:

(1) As mentioned at the beginning of the paper, some Peruvian corporations follow IFRS (all the IFRS issued by the IASB in the case of listed companies and only those approved by the CNC in the case of large, non-listed, and non-financial companies). However, it is evident that there is a timing problem in the approval of standards by the CNC. This process takes some time because (a) the CNC must wait for the official translation of the IFRS, done by the IASB, and (b) the CNC must meet to decide whether the new rule should be approved.

The study conducted by the World Bank in 2004 concluded that it is primarily due to the CNC's lack of resources that IFRS are not updated and incorporated in a timely manner. The study adds that auditing standards also suffer from a similar lag.

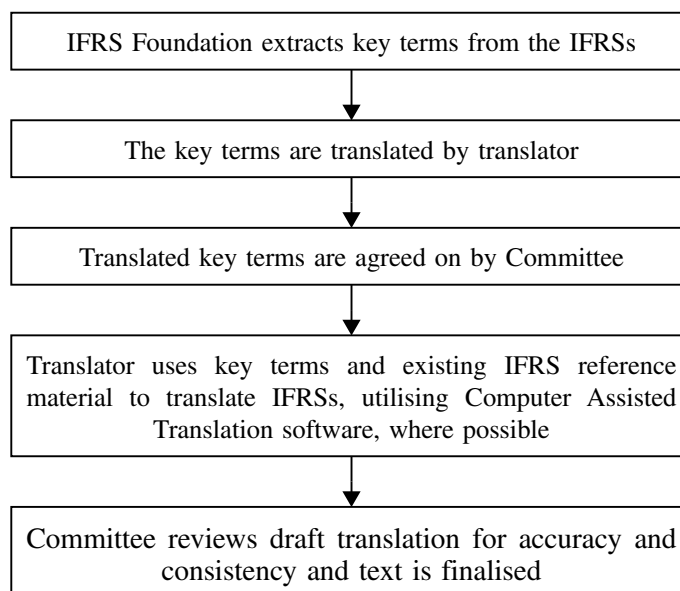
Moreover, in an interview, the President of the CNC, Dr. Oscar Pajuelo, stated that because of the late reception of the official translation from the IFRS Foundation, new standards are not published in Peru at the desired time; moreover, the CNC must still evaluate and analyze whether the new standard should be applied in Peru (Pajuelo, Analisis Tributario, 2011, pp. 8-11).

Ultimately, such delays have adverse effects on the accuracy and reliability of financial statements.

It is important to mention that due to the efforts of the IASB (through the IFRS Foundation) to translate the standards into nearly all the most widely spoken languages in the world, this situation has improved over time (national accounting standards institutions

were required to do their own translation some years ago). The IFRS Foundation is an independent, not-for-profit private sector organization working in the public interest. Its principal objectives are to (a) develop a single set of high quality, understandable, enforceable, and globally accepted international financial reporting standards (IFRS) through its standard-setting body, the IASB; (b) promote the use and rigorous application of those standards; (c) take the financial reporting needs of emerging economies and SMEs into consideration; and (d) promote and facilitate the adoption of IFRS, as the standards and interpretations issued by the IASB, through convergence between national accounting standards and IFRS. As a reference, Figure 4 illustrates the process followed by the IFRS Foundation to translate the IFRS into many languages.

**Figure 4. Process to Translate the IFRS into Many Languages**



Source: <http://www.ifrs.org/Use-around-the-world/IFRS-translations/Pages/Official-translation-process-and-policies.aspx>

In addition to the previously mentioned points, it should be noted that different accounting rules and plans must be applied to financial institutions. According to the ROSC (World Bank, 2004), the SBS enjoys accounting standard-setting privileges in specific areas of purview and has utilized them to set accounting rules for banks, insurance companies, and other types of organizations. The problem that arises from these privileges is that their rules may occasionally be inconsistent with IFRS.

(2) As mentioned above, Peruvian GAAP is currently IFRS, so Peru's accounting rules appear to be well developed and follow global trends. However, a more rigorous and strict analysis shows that although the official accounting rules in Peru are the IFRS, many companies do not follow them, especially among SMEs. According to ROSC, after 2004, the adoption of international standards has not brought similar achievements for SMEs, and users of financial statements perceive that the financial information provided by SMEs has limited reliability, which is often detrimental to SME access to financing (p. ii).

In contrast, according to Diaz (2010, p. 5), tax and legal aspects are highly prioritized by Peruvian companies as they prepare financial statements. Moreover, Diaz (2010) also concludes that (a) a high percentage of companies do not prepare monthly financial statements, but rather prepare their financial statements semiannually or annually; (b) a high percentage of companies only prepare statements of financial position and comprehensive income (no cash flow statements or statements of changes in equity and no notes to the financial statements); (c) when preparing financial statements, accountants in Peru give precedence to tax rules over accounting rules (although they mention that they apply IFRS); and (d) there is no official government institution to control accounting information, although in the past, the former CONASEV played that role (pp. 21-23).

(3) For the majority of companies in Peru (especially SMEs), accounting records and financial statements are prepared for the sole purpose of filing taxes. As mentioned above, according to the results of Diaz (2010), Peruvian companies prioritize tax rules set by the SUNAT over the accounting standards adopted by the CNC.

(4) As previously mentioned, a combination of accounting rules are applied in Peru (IFRS, only the IFRS approved by the CNC, rules approved by the SBS, and IFRS for SMEs). The causes of this diversity of rules are explained in the following paragraphs.

According to Leon (2010), who based his research on Durand (2007), de Soto (1986), and Murakami (2007), among others, Peru is a fragmented country, both socially and economically, and contains three simultaneous economies: criminal, informal, and formal.

On one hand, there is one segment of society (formal society) where the rule of law is applied and the state, the government, and its institutions rule. On the other hand, in another segment of Peruvian society (informal society) the "unrule of law" applies. Moreover, there is a criminal sector of society, which is composed of people/firms working in illegal activities such as drug trafficking, smuggling, and piracy.

To illustrate the importance of the criminal economy in Peru, according to a report published in *Gestión* (the country's most important economics and business newspaper), drug-trafficking related activities accounted for the equivalent of 17% of Peru's GDP in

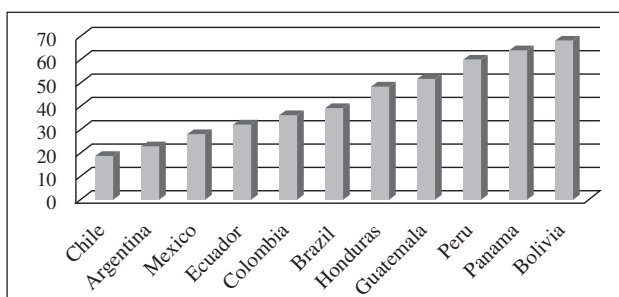
2009.

The informal sector—in which formality and, consequently, taxes, are avoided—represents a very high percentage of the Peruvian work force. Many micro and small companies start as informal firms and, after reaching a level of economic growth, decide to become formal. The following are some advantages of being formal:

- Access to capital in the financial system at a lower cost;
- Possibility to export to other markets;
- Access to state/government programs to help micro/small entrepreneurs;
- Possibility to become a supplier to government institutions.

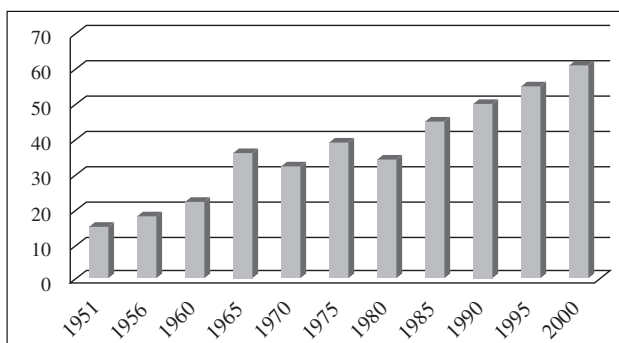
The formal economy represents only 30-35% of Peru's GDP (without considering the criminal economy) and is the only sector in which any form of IFRS (full or partial) are applied.

**Figure 5. Size of the Informal Sector in Peru Compared to Other Latin American Countries (Percentage of GDP)**



Source: SUNAT based on “The Economics of the informal Sector,” Norman A. Loayza, World Bank Policy Research Working Paper 1727 (1997)

**Figure 6. Size of the Informal Sector in Peru (Percentage of GDP)**



Source: SUNAT based on ILD (Institute for Liberty and Democracy) and INEI (“National Institute of Statistics and Informatics”)



As shown in the figures above, informal companies account for a very high percentage of the economy not only in Peru, but also in all of Latin America. The question of relevance is why this phenomenon occurs, specifically in Peru. The answer is summed up in a famous quote by Hernando de Soto (1986): “*La causa de la informalidad es el elevado costo de la formalidad*” (the cause of informality is the high cost of formality). Obviously, the shown percentages consider only the formal and informal sectors because there are no official statistics considering the criminal sector.

Consequently, it is very important to reemphasize that it is not accurate to state that IFRS are consistently applied in Peru. Out of all Peruvian companies, only the formal ones (neither criminal nor informal) apply these standards. Formal companies represent less than 40% of the country’s total GDP, without considering the criminal sector. Moreover, of the formal companies, only some SMEs apply IFRS, which are mainly applied by listed companies and some non-listed firms.

## **7. Summary and Suggestions**

### **7.1 Summary**

Over the course of its history, the accounting system in Peru has been influenced and shaped by foreign and local factors. As a result, Peru has several institutions that are responsible for setting accounting standards and a multitude of different standards for various types of companies. The three pillars of the Peruvian accounting system are (1) the National Accounting System (SNC), which sets rules for public and private institutions; (2) Accounting Books; and (3) the Plans (or Charts) of Accounts, which aim to create conformity in the Accounting System for Enterprises (Diaz, 2010).

The CNC is the institution that sets accounting standards for both the public and private sectors (including SMEs). Moreover, the Company Law (Law 26887, effective on January 1, 1998) established under Article 223 states that financial statements should be prepared and presented according to Peruvian GAAP.

The CNC’s Resolution No 013-98-EF/93.01 (articles 1 and 2) states that: (1) the GAAP, referred to in article 223 of the new Company Law, comprise mainly the IAS and the standards established by the Control and Supervisory Bodies; and (2) exceptionally, and in some circumstances in which specific accounting operative procedures are not ruled on by the IASB, accounting principles applied in the United States (US GAAP) can be used. The IFRS are complemented by others standards issued by relevant Peruvian regulators, such as the SBS or the Superintendence of Private Medical Care Services (SEPS).

In Peru, current laws state that all entities that are not supervised by the SMV and whose

annual revenues or total assets are greater than or equal to 3,000 UIT (11.1 MM new soles in 2013) shall report financial statements audited by auditing firms that have authorization from the Peruvian Association of Certified Public Accountants, in conformity with IFRS and subject to provisions and terms as determined by the SMV. The UIT of reference is that effective on January 1 of each period.

Four problems arise with regard to the implementation of IFRS in Peru:

- There are slight delays in the updating of some adopted accounting standards by the CNC.
- Even though the Peruvian GAAP are essentially IFRS and Peru's accounting rules thus seem to be very developed and in accordance with global trends, many companies do not follow these rules, especially among SMEs.
- For the majority of companies in Peru (especially SMEs), accounting records and financial statements are prepared for the sole purpose of filing taxes.
- Peru can be classified as having three types of societies or economies: criminal, informal, and formal. Only some companies from the last of these groups apply IFRS; further, formal companies represent less than 40% of GDP, so it is not accurate to state that Peruvian companies consistently apply IFRS accounting standards.

## 7.2 Suggestions

This section has two parts. The first presents an analysis of the World Bank's research, and the second provides some other suggestions. On June 10, 2004, the World Bank conducted research on the Peruvian Accounting and Auditing System and prepared a document called the Report on the Observance of Standards and Codes (ROSC). This research provided some policy recommendations and proposed an Action Plan with more than ten components (see Table 4).

That report would be used as a starting point for suggestions to improve the Peruvian accounting system.

- 1) "The Accounting Standards Board (CNC) should be allocated, through the National Public Accounting Department (DNCP), a specific recurrent budget or personnel, sufficient for it to carry-out its responsibilities, mainly the adoption of IFRS, fully and in a timely fashion - including the translation of the exposure drafts, *i.e.* before the standards are approved by the international standard-setting body (IASB)" (World Bank, 2004, p. iii).

As previously mentioned, the CNC does not have sufficient resources to verify the actual implementation of IFRS in Peru (Pajuelo, O., "*Análisis Tributario*," May 2011, pp. 8-11);

**Table 4**

Description of Action	Responsibility
1. Allocate a specific recurrent budget or personnel for CNC (through DNCP) so that it could carry-out its responsibilities fully and in a timely fashion – The level of resources needed for the CNC to function adequately should be estimated as part of the preparation of the Country Action Plan	MoF
2. Seek cooperation with other Spanish-speaking standard-setters in order to generate economies of scale in the standard-setting process	CNC
3. Establish simplified accounting and financial reporting standards for SMEs (taking into account the progress of IASB's SME standard project), so as to improve the quality of their financial information and therefore their ability to access credit	CNC
4. Require Peru's largest non-listed companies to present annual audited financial statements and that these statements be made available to the public	MoF/CONASEV
5. Strengthen CONASEV's enforcement capacity to achieve a higher quality of corporate financial information	MoF
6. Harmonize accounting principles for banks' or insurance companies' general-purpose financial reporting with IFRS	SBS (in cooperation with CNC)
7. Strengthen the code of ethics for professional accountants to clarify incompatibilities and align it with IFAC's	FCCPP (in cooperation with CONASEV, SBS and CGR)
8. Establish an independent Auditor Oversight Board (AOB) for licensing and monitoring statutory auditors among all regulated companies	CONASEV and SBS (in cooperation with CGR and FCCPP)
9. Harmonize and strengthen academic curricula in the field of accounting and auditing so that future practitioners have sufficient knowledge and competence	MoF, Ministry of Education, Assembly of Rectors
10. Establish a system of professional certification required for awarding the license of statutory auditor	AOB
11. Introduce training programs for regulators on accounting and auditing standards and enforcement of financial reporting requirements	AOB, CONASEV, CGR, SBS, CNC, DNCP
12. Elaborate a Country Action Plan for the implementation of the ROSC A&A's recommendations	MoF (in cooperation with in-country stakeholders)

Source: World Bank (2004), pp. v-vi.

therefore, there is total agreement with the statement of the World Bank.

- 2) “CNC should seek cooperation with other Spanish-speaking standard-setters so as to obtain economies of scale in the standard-setting process, including translation of IFRS, and maximize comparability among Latin American countries.” (World Bank, 2004, p. iii).

Since the IASB currently translates the IFRS into a number of languages, including Spanish, and most Latin American countries have adopted IFRS, the statement given by the World Bank in 2004 is no longer valid.

- 3) “In order to help SMEs improve the quality of their financial information and therefore their ability to access credit, CNC should, as a matter of priority, establish simplified accounting and financial reporting standards that could be used by SMEs on a voluntary basis” (World Bank, 2004, p. iii).

Peru’s CNC has already adopted IFRS for SMEs; therefore, this statement is not currently valid.

- 4) “Large non-listed companies should be required to present annual audited financial statements and these statements should be publicly available through CONASEV” (World Bank, 2004, p. iii).

This statement is still valid.

- 5) “CONASEV’s enforcement capacity should be strengthened in order to improve the level of compliance by companies with financial reporting requirements, and thus achieve a higher quality of information” (World Bank, 2004, p. iii).

Through the “Law of Strengthening of the Securities Exchange Supervision,” Ley N° 29782, which has been enforced since July 28, 2011, the former CONASEV has strengthened its capacity.

Moreover, as previously mentioned, Peru’s regulator, SMV (formerly CONASEV), issued resolutions in 2010 (N° 102-2010-EF/94.01.1) and 2012 (N° 011-2012-SMV/01) requiring public and non-public listed companies to follow IFRS as issued by IASB. The application of these resolutions is scheduled in two phases. Consequently, this statement is not currently valid because the issuance of these resolutions by the Peruvian regulator is a significant step towards transparency and high quality financial information in the Peruvian stock market.

- 6) “In the financial sector, SBS in cooperation with CNC should seek to harmonize accounting principles to be applied by banks and insurance companies for their general-purpose financial reporting toward full alignment with IFRS” (World Bank, 2004, p. iii).

Currently, financial institutions must follow accounting rules set by the SBS, which differ from the IFRS. Thus, the World Bank’s statement is still valid.

- 7) “With regards to ethical standards, the accountancy’s professional bodies (the colegios

and their federal body FCCPP) should strengthen the accountants' code of ethics to clarify incompatibilities and incorporate the content of the current International Federation of Accountants' (IFAC) ethics code" (World Bank, 2004, p. iii).

This World Bank statement is still valid.

- 8) "Peruvian authorities entrusted with regulating the public accounting profession and the audit practice (i.e., the Accountant General's Office, CONASEV, the SBS, and the Auditor General of the Republic) should establish an independent auditor oversight body in order to increase the accountability of practitioners, especially independent auditors" (World Bank, 2004, p. iv).

There is no Auditor General of the Republic in Peru; therefore, this statement is still valid.

- 9) "The authorities should seek, in cooperation with the universities, to harmonize and strengthen academic curricula in the field of accounting and auditing so that future practitioners have sufficient knowledge and competence to undertake the responsibilities of *contador público*, and even more so, those of statutory auditor" (World Bank, 2004, p. iv). According to Oscar Pajuelo Ramirez, President of the CNC, "there is no standardized curriculum in the accounting schools in Peruvian universities; consequently, the quality of Peruvian accountants is inconsistent" (Pajuelo, O., "*Análisis Tributario*," May 2011, pp. 8 -11). Therefore, there is total agreement with the statement of the World Bank.

- 10) "A system of certification of professional accountants should be established under the authority of the auditor oversight board; such certification should be required for awarding the license of statutory auditors" (World Bank, 2004, p. iv).

Neither an auditor oversight board nor a system of certification of professional accountants exist in Peru; hence, the statement is still valid.

- 11) "Introduce training programs for regulators on accounting and auditing standards and enforcement of financial reporting requirements" (World Bank, 2004, p. vi).

This statement is still valid since such training programs do not exist.

Some other suggestions to improve the Peruvian accounting system include:

- The offering of low-cost continuing education programs by prestigious universities and accounting associations to improve the knowledge of Peruvian accountants.
- Accounting courses for entrepreneurs and managers of SMEs should be offered to teach them how useful accounting reports could be in their decision making processes. As mentioned above, accounting records are basically used only for tax purposes, and the lack of accounting knowledge prevents various stakeholders from performing better.

The suggestions above, complemented by those proposed by Tanaka (2013) below, present a holistic picture of potential ways to improve the Peruvian financial accounting system.

- i) Transition from accounting practices based on fulfilling tax requirements to practices that seek to improve business decision making.
- ii) Education and training for accountants and SME managers.
- iii) Intensive promotional and informative campaign in mass media.
- iv) Increasing government incentives through the tax agency (SUNAT).

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## Appendixes

### Appendix 1: Main acronyms

<b>BVL</b>	Lima Stock Exchange (Bolsa de Valores de Lima, in Spanish)
<b>CGN</b>	Accountant General of Peru
<b>CGR</b>	Auditor General of the Republic
<b>CNC</b>	Peruvian Accounting Standards Board (Consejo Normativo de Contabilidad, in Spanish)
<b>CONASEV</b>	National Supervisory Commission of Enterprises and Securities (Comision Nacional de Empresas y Valores, in Spanish)
<b>CPC</b>	Contador Público Colegiado
<b>CPN</b>	Accountant General's Office
<b>DNCP</b>	National Public Accounting Department
<b>FCCPP</b>	Federation of Colleges of Public Accountants of Peru
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>GDP</b>	Gross Domestic Product
<b>IAS</b>	International Accounting Standards
<b>IASB</b>	International Accounting Standards Board
<b>IASC</b>	International Accounting Standards Committee
<b>IFRIC</b>	International Financial Reporting Interpretation Committee
<b>IFRS</b>	International Financial Reporting Standards
<b>ILD</b>	Institute for Liberty and Democracy
<b>INEI</b>	National Institute of Statistics and Informatics
<b>ISA</b>	International Standards on Auditing
<b>LGS</b>	Company Law or the Law of Business Associations (Ley General Sociedades)
<b>LGSFS</b>	General Law of the Financial and Insurance Systems (Ley General de los Sistemas Ficcero y de Seguros, in Spanish)
<b>LMV</b>	Securities Market Law
<b>LSNC</b>	Law on the National Accounting System
<b>MEF</b>	Ministry of Economy and Finance (Ministerio de Economia y Finanzas, in Spanish)
<b>PCG</b>	General Chart of Accounts
<b>PCGE</b>	General Chart of Accounts for Enterprises
<b>PCGR</b>	Revised General Chart of Accounts
<b>ROSC</b>	Reports on the Observance of Standards and Codes
<b>S/.</b>	New Soles (Nuevos Soles) Peruvian currency
<b>SAA</b>	Open Corporations (Sociedades Anónimas Abiertas)
<b>SBS</b>	Superintendency of Banking, Insurance, and Private Pension Fund Administrators (Superintendencia de Banca, Seguros y AFP in Spanish)
<b>SEC</b>	Securities Exchange Commission
<b>SIC</b>	Standing Interpretation Committee
<b>SME</b>	Small and Medium Enterprises
<b>SMV</b>	Superintendence of the Securities Market (Superintendencia del Mercado de Valores)
<b>SPP</b>	Private Pension Management System
<b>SUNAT</b>	National Superintendency of Customs and Tax Administration (Superintendencia Nacional de Aduanas y Administracion Tributaria, in Spanish)
<b>US</b>	GAAPs United States Generally Accounting Accepted Principles
<b>UIT</b>	(equivalent to approximately US\$1,400) unidad impositiva tributaria, in Spanish)

**Appendix 2: Peruvian IFRS set by the CNC (Peruvian Accounting Standards Board)**

<b>IFRS</b>	<b>IAS</b>	<b>IFRIC</b>	<b>SIC</b>
IFRS 1	IAS 1	IFRIC 1	SIC 7
IFRS 2	IAS 2	IFRIC 2	SIC 10
IFRS 3	IAS 7	IFRIC 4	SIC 15
IFRS 4	IAS 8	IFRIC 5	SIC 25
IFRS 5	IAS 10	IFRIC 6	SIC 27
IFRS 6	IAS 11	IFRIC 7	SIC 29
IFRS 7	IAS 12	IFRIC 10	SIC 31
IFRS 8	IAS 16	IFRIC 12	SIC 32
IFRS 9	IAS 17	IFRIC 13	
IFRS 10	IAS 18	IFRIC 14	
IFRS 11	IAS 19	IFRIC 15	
IFRS 12	IAS 20	IFRIC 16	
IFRS 13	IAS 21	IFRIC 17	
	IAS 23	IFRIC 18	
	IAS 24	IFRIC 19	
	IAS 26	IFRIC 20	
	IAS 27	IFRIC 21	
	IAS 28		
	IAS 29		
	IAS 32		
	IAS 33		
	IAS 34		
	IAS 36		
	IAS 37		
	IAS 38		
	IAS 39		
	IAS 40		
	IAS 41		

Source: Resolution No 053-2013-EF/30